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Futures Contracts on Commodities with Multiple Varieties: An Analysis of Premiums and Discounts
Kenneth D. Garbade; William L. Silber
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http://links.jstor.org/sici?sici=0021-9398%28198307%2956%3A3%3C249%3AFCO
Abstract: In this paper we examine the structure of futures contracts on commodities with heterogeneous varieties. The structure of premiums and discounts allowed on different grades of a commodity is analyzed. We then identify penalty and equivalence systems for quality adjustments. We also explore the implications of the adjustment system for the risk exposure to hedgers using the futures contract. We find that there is no prima facie case for setting contract premiums and discounts equal to actual commercial premiums and discounts.
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Inferring Future Volatility from the Information in Implied Volatility in Eurodollar Options: A New Approach
Kaushik I. Amin; Victor K. Ng
The Review of Financial Studies, Vol. 10, No. 2. (Summer, 1997), pp. 333-367.

Stable URL:
http://links.jstor.org/sici?sici=0893-9454%2819972 2%2910%3A2%3C333%3AIFV

Abstract: We study the information content of implied volatility from several
volatility specifications of the Heath-Jarrow-Morton (1992) (HJM) models
relative to popular historical volatility models in the Eurodollar options market.
The implied volatility from the HJM models explains much of the variation of
realized interest rate volatility over both daily and monthly horizons. The
implied volatility dominates the GARCH terms, the Glosten et al. (1993) type
asymmetric volatility terms, and the interest rate level. However, it cannot
explain that the impact of interest rate shocks on the volatility is lower when
interest rates are low than when they are high.
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4.

Futures-Trading Activity and Stock Price Volatility (in Shorter Papers)

Hendrik Bessembinder; Paul J. Seguin
The Journal of Finance, Vol. 47, No. 5. (Dec., 1992), pp. 2015-2034.
Stable URL:
http://links.jstor.org/sici?sici=0022-1082%2819921 2%2947%3A5%3C2015%3AFA

Abstract: We examine whether greater futures-trading activity (volume and open
interest) is associated with greater equity volatility. We partition each trading
activity series into expected and unexpected components, and document that
while equity volatility covaries positively with unexpected futures-trading
volume, it is negatively related to forecastable futures-trading activity. Further,
though futures-trading activity is systematically related to the futures contract
life cycle, we find no evidence of a relation between the futures life cycle and
spot equity volatility. These findings are consistent with theories predicting that
active futures markets enhance the liquidity and depth of the equity markets.
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Playing the Turn-Of-The-Year Effect with Index Futures (in OR Practice)

Ross Clark; William T. Ziemba
Operations Research, Vol. 35, No. 6. (Nov. - Dec., 1987), pp. 799-813.
Stable URL:
http://links.jstor.org/sici?sici=0030-364X%2819871 1%2F12%2935%3A6%3C799%

Abstract: The "turn-of-the-year" effect is a well-documented stock market
phenomenon in which low capitalization "small stocks" receive relatively higher
returns than high capitalization "big stocks" on the last trading day of December
and the first 8 trading days of January. The difference in returns during this
period is of the order of 10%. Strategies for buying and selling these small
stocks may be profitable, but may also incur large transaction costs that
eliminate most or all of the projected gains. In this paper, we show a preferable
way to invest in order to exploit this anomaly: use a futures spread that is long in
the small stocks and short in the big stocks. The optimal investment, which uses
a modification of the capital growth criterion, is large and has a substantial
expected gain with minimal risk. We have used this analysis successfully in
managing investment accounts.
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Kenneth D. Garbade and William L. Silber[*]

New York University

Futures Contracts on Commodities with Multiple Varieties: An Analysis of Premiums and Discounts

I. Introduction

In casual conversation, people often speak of a commodity as if it occurs in a single, homogeneous form. A moment's reflection reveals, however, that classifications like "gold" and "wheat" are actually labels for commodity groups that include varieties with different characteristics. For example, gold can differ according to fineness and wheat can differ according to grade. Such quality variations in a commodity rarely present a problem for cash (or spot) market transactions, because buyers and sellers can bargain over price in light of the characteristics of particular lots.[1] The situation is quite different

In this paper we examine the structure of futures contracts on commodities with heterogeneous varieties. The structure of premiums and discounts allowed on different grades of a commodity is analyzed. We then identify penalty and equivalence systems for quality adjustments. We also explore the implications of the adjustment system for the risk exposure to hedgers using the fu-

Inferring Future Volatility from the Information in Implied Volatility in Eurodollar Options: A New Approach

Kaushik I. Amin
Lehman Brothers

Victor K. Ng
Goldman Sachs & Co.

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tility from several volatility specifications of
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Futures-Trading Activity and Stock Price Volatility

HENDRIK BESSEMBINDER and PAUL J. SEGUIN*

ABSTRACT

We examine whether greater futures-trading activity (volume and open interest) is associated with greater equity volatility. We partition each trading activity series into expected and unexpected components, and document that while equity volatility covaries positively with unexpected futures-trading volume, it is negatively related to forecastable futures-trading activity. Further, though futures-trading activity is systematically related to the futures contract life cycle, we find no evidence of a relation between the futures life cycle and spot equity volatility. These findings are consistent with theories predicting that active futures markets enhance the liquidity and depth of the equity markets.

THE BELIEF THAT TRADING activity in equity futures markets can lead to excess volatility in spot equity markets is widely held. For example, John Shad, former chairman of the Securities and Exchange Commission asserts: "While stock index futures serve valid arbitrage and hedging purposes, they have escalated the leverage and volatility of the entire stock market to unacceptable levels."[1] As a consequence, asset market volatility and the role of futures trading has been the focus of substantial recent attention, including studies by the New York Stock Exchange, the Commodity Futures Trading Commission, the Securities and Exchange Commission, and a Presidential Task

OR PRACTICE

PLAYING THE TURN-OF-THE-YEAR EFFECT WITH INDEX FUTURES

ROSS CLARK
Midland Doherty Limited, Vancouver, British Columbia

WILLIAM T. ZIEMBA
University of British Columbia, Vancouver, British Columbia

(Received March 1987; revision received August 1987; accepted August 1987)

The "turn-of-the-year" effect is a well-documented stock market phenomenon in which low capitalization "small stocks" receive relatively higher returns than high capitalization "big stocks" on the last trading day of December and the first 9 trading days of January. The difference in returns during this period is of the order of 10%. Strategies for buying and selling these small stocks may be profitable, but may also incur large transaction costs that eliminate most or all of the projected gains. In this paper, we show a preferable way to invest in order to exploit this anomaly: use a futures spread that is long in the small stocks and short in the big stocks. The optimal investment, which uses a modification of the capital growth criterion, is large and has a substantial expected gain with minimal risk. We have used this analysis successfully in managing investment accounts.

This paper reviews the literature on the small-firm, turn-of-the-year effect and provides an investment strategy for exploiting this empirical regularity. We begin by discussing the actual returns received from various investments over the last 60 years. The evidence indicates that small firms—that is, those with low capitalizations—greatly outperform other investments. Most of the excess gains over larger capitalization firms occur in January, particularly in the first few days of the month. We examine this evidence and try to explain why this anomaly occurs and is so

We first discuss the evidence for the turn-c year effect, and then present our analysis of str for taking advantage of it. Finally, we descrit most recent experience in applying our pre strategy.

1. The Evidence

Ibbotson Associates (1986) have considered the returns received from investments in United